

105TH CONGRESS
1ST SESSION

S. 218

To invest in the future American workforce and to ensure that all Americans have access to higher education by providing tax relief for investment in a college education and by encouraging savings for college costs, and for other purposes.

IN THE SENATE OF THE UNITED STATES

JANUARY 28, 1997

Mr. BIDEN introduced the following bill; which was read twice and referred to the Committee on Finance

A BILL

To invest in the future American workforce and to ensure that all Americans have access to higher education by providing tax relief for investment in a college education and by encouraging savings for college costs, and for other purposes.

1 *Be it enacted by the Senate and House of Representa-*
2 *tives of the United States of America in Congress assembled,*

3 **SECTION 1. SHORT TITLE.**

4 This Act may be cited as the “Growing the Economy
5 for Tomorrow: Assuring Higher Education is Affordable
6 and Dependable Act”.

1 **SEC. 2. FINDINGS.**

2 The Congress finds that—

3 (1) since 1980 the cost of public college tuition
4 and fees has increased nearly three times faster than
5 the median household income;

6 (2) in 1995, 8.4 percent of the median house-
7 hold income was required to pay for the average cost
8 of public college tuition and fees whereas 4.5 percent
9 of such income was required to pay for such cost in
10 1980;

11 (3) in 1995, 36.5 percent of the median house-
12 hold income was required to pay for the average cost
13 of private college tuition and fees whereas 20.4 per-
14 cent of such income was required to pay for such
15 cost in 1980;

16 (4) educating America's future workforce is one
17 of the best investments we as a society can make
18 and one of the best measurements of future eco-
19 nomic well-being; and

20 (5) the Federal Government should renew and
21 strengthen its longstanding commitment to seeing
22 that young people desiring to go to college are not
23 turned away because of the cost.

1 **TITLE I—TAX INCENTIVES FOR**
 2 **HIGHER EDUCATION**

3 **SEC. 100. AMENDMENT OF 1986 CODE.**

4 Except as otherwise expressly provided, whenever in
 5 this title an amendment or repeal is expressed in terms
 6 of an amendment to, or repeal of, a section or other provi-
 7 sion, the reference shall be considered to be made to a
 8 section or other provision of the Internal Revenue Code
 9 of 1986.

10 **Subtitle A—Tax Relief for Higher**
 11 **Education Costs**

12 **SEC. 101. DEDUCTION FOR HIGHER EDUCATION EXPENSES.**

13 (a) DEDUCTION ALLOWED.—Part VII of subchapter
 14 B of chapter 1 is amended by redesignating section 221
 15 as section 222 and by inserting after section 220 the fol-
 16 lowing new section:

17 **“SEC. 221. HIGHER EDUCATION TUITION AND FEES; INTER-**
 18 **EST ON STUDENT LOANS.**

19 “(a) ALLOWANCE OF DEDUCTION.—In the case of an
 20 individual, there shall be allowed as a deduction an
 21 amount equal to the sum of—

22 “(1) the qualified higher education expenses,
 23 plus

24 “(2) interest on qualified higher education
 25 loans, paid by the taxpayer during the taxable year.

1 “(b) QUALIFIED HIGHER EDUCATION EXPENSES.—

2 For purposes of this section—

3 “(1) QUALIFIED HIGHER EDUCATION EX-

4 PENSES.—

5 “(A) IN GENERAL.—The term ‘qualified

6 higher education expenses’ means tuition and

7 fees required for the enrollment or attendance

8 of—

9 “(i) the taxpayer,

10 “(ii) the taxpayer’s spouse, or

11 “(iii) any dependent of the taxpayer

12 with respect to whom the taxpayer is al-

13 lowed a deduction under section 151,

14 as an eligible student at an institution of higher

15 education.

16 “(B) EXCEPTION FOR EDUCATION INVOLV-

17 ING SPORTS, ETC.—Such term does not include

18 expenses with respect to any course or other

19 education involving sports, games, or hobbies

20 unless such expenses—

21 “(i) are part of a degree program, or

22 “(ii) are deductible under this chapter

23 without regard to this section.

24 “(C) EXCEPTION FOR NONACADEMIC

25 FEES.—Such term does not include any student

activity fees, athletic fees, insurance expenses,
or other expenses unrelated to a student's academic course of instruction.

“(D) ELIGIBLE STUDENT.—For purposes of subparagraph (A), the term ‘eligible student’ means a student who meets the requirements of section 484(a)(1) of the Higher Education Act of 1965 (20 U.S.C. 1091(a)(1)).

“(2) DOLLAR LIMITATION.—

“(A) IN GENERAL.—The amount taken into account under paragraph (1) for any taxable year shall not exceed \$10,000.

“(B) PHASE-IN.—In the case of taxable years beginning in 1997, 1998, and 1999, subparagraph (A) shall be applied by substituting ‘\$5,000’ for ‘\$10,000’.

“(3) LIMITATION BASED ON MODIFIED ADJUSTED GROSS INCOME.—

“(A) IN GENERAL.—If the modified adjusted gross income of the taxpayer for the taxable year exceeds \$70,000 (\$100,000 in the case of a joint return), the amount which would (but for this paragraph) be taken into account under paragraph (1) shall be reduced (but not below zero) by the amount which bears the

1 same ratio to the amount which would be taken
 2 into account as such excess bears to \$20,000.

3 “(B) INFLATION ADJUSTMENT.—In the
 4 case of any taxable year beginning in a calendar
 5 year after 1997, the \$70,000 and \$100,000
 6 amounts contained in subparagraph (A) shall
 7 be increased by an amount equal to—

8 “(i) such dollar amount, multiplied by

9 “(ii) the cost-of-living adjustment
 10 under section 1(f)(3) for the calendar year
 11 in which the taxable year begins, except
 12 that section 1(f)(3)(B) shall be applied by
 13 substituting ‘1996’ for ‘1992’.

14 “(C) ROUNDING.—If any amount as ad-
 15 justed under subparagraph (B) is not a mul-
 16 tiple of \$50, such amount shall be rounded to
 17 the nearest multiple of \$50 (or if such amount
 18 is a multiple of \$25, such amount shall be
 19 rounded to the next highest multiple of \$50).

20 “(D) MODIFIED ADJUSTED GROSS IN-
 21 COME.—The term ‘modified adjusted gross in-
 22 come’ means the adjusted gross income of the
 23 taxpayer for the taxable year determined—

24 “(i) without regard to this section and
 25 sections 911, 931, and 933, and

1 “(ii) after the application of sections
2 86, 135, 219, 222, and 469.

3 “(4) INSTITUTION OF HIGHER EDUCATION.—
4 The term ‘institution of higher education’ means an
5 institution which—

6 “(A) is described in section 481 of the
7 Higher Education Act of 1965 (20 U.S.C.
8 1088), and

9 “(B) is eligible to participate in programs
10 under title IV of such Act.

11 “(c) QUALIFIED HIGHER EDUCATION LOAN.—For
12 purposes of this section—

13 “(1) IN GENERAL.—The term ‘qualified higher
14 education loan’ means a loan to a student which is—

15 “(A) made, insured, or guaranteed by the
16 Federal Government,

17 “(B) made by a State or a political sub-
18 division of a State,

19 “(C) made from the proceeds of a qualified
20 student loan bond under section 144(b), or

21 “(D) made by an institution of higher edu-
22 cation (as defined in section 1201(a) of the
23 Higher Education Act of 1965 (20 U.S.C.
24 1141(a))).

25 “(2) LIMITATION.—

1 “(A) IN GENERAL.—The amount of inter-
 2 est on a qualified higher education loan which
 3 is taken into account under subsection (a)(2)
 4 shall be reduced by the amount which bears the
 5 same ratio to such amount of interest as—

6 “(i) the proceeds from such loan not
 7 used for qualified higher education ex-
 8 penses, bears to

9 “(ii) the total proceeds from such
 10 loan.

11 “(B) QUALIFIED HIGHER EDUCATION EX-
 12 PENSES.—For purposes of subparagraph (A),
 13 the term ‘qualified higher education expenses’
 14 has the meaning given such term by subsection
 15 (b), except that—

16 “(i) such term shall include reason-
 17 able living expenses while away from home,
 18 and

19 “(ii) the limitations of paragraphs (2)
 20 and (3) of subsection (b) shall not apply.

21 “(d) COORDINATION WITH OTHER PROVISIONS.—

22 “(1) NO DOUBLE BENEFIT.—

23 “(A) IN GENERAL.—No deduction shall be
 24 allowed under subsection (a) for qualified high-
 25 er education expenses or interest on qualified

1 higher education loans with respect to which a
2 deduction is allowed under any other provision
3 of this chapter.

4 “(B) PAYMENTS FROM EXCLUDABLE
5 AMOUNTS.—A deduction shall be allowed under
6 subsection (a)(1) for qualified higher education
7 expenses only to the extent the amount of such
8 expenses exceeds the sum of—

9 “(i) amounts excludable under section
10 135 for the taxable year, plus

11 “(ii) the excess of—

12 “(I) amounts excludable under
13 sections 117 and 222(d)(2) for the
14 taxable year, reduced (but not below
15 zero) by—

16 “(II) reasonable expenses paid or
17 incurred during the taxable year for
18 meals and lodging of the taxpayer,
19 spouse, or dependent while an eligible
20 student at an institution of higher
21 education, plus

22 “(iii) educational assistance allow-
23 ances under chapter 30, 31, 32, 34, or 35
24 of title 38, United States Code, plus

1 “(iv) payments (other than a gift, be-
2 quest, devise, or inheritance within the
3 meaning of section 102(a)) for educational
4 expenses, or attributable to attendance at
5 an eligible educational institution, which
6 are exempt from income taxation by any
7 law of the United States.

8 “(2) QUALIFIED RESIDENCE INTEREST.—If a
9 deduction is allowed under subsection (a)(2) for in-
10 terest which is also qualified residence interest under
11 section 163(h), such interest shall not be taken into
12 account under section 163(h).

13 “(e) SPECIAL RULES.—

14 “(1) ELECTION.—If a deduction is allowable
15 under more than one provision of this chapter with
16 respect to qualified higher education expenses, the
17 taxpayer may elect the provision under which the de-
18 duction is allowed.

19 “(2) LIMITATION ON TAXABLE YEAR OF DE-
20 DUCTION.—

21 “(A) IN GENERAL.—A deduction shall be
22 allowed under subsection (a)(1) for any taxable

1 year only to the extent the qualified higher edu-
 2 cation expenses are in connection with attend-
 3 ance at an institution of higher education dur-
 4 ing the taxable year.

5 “(B) CERTAIN PREPAYMENTS ALLOWED.—

6 Subparagraph (A) shall not apply to qualified
 7 higher education expenses paid during a taxable
 8 year which are in connection with attendance at
 9 an institution of higher education which begins
 10 during the first 2 months of the following tax-
 11 able year.

12 “(3) NO DEDUCTION FOR MARRIED INDIVID-

13 UALS FILING SEPARATE RETURNS.—If the taxpayer
 14 is a married individual (within the meaning of sec-
 15 tion 7703), this section shall apply only if the tax-
 16 payer and his spouse file a joint return for the tax-
 17 able year.

18 “(4) REGULATIONS.—The Secretary may pre-

19 scribe such regulations as may be necessary or ap-
 20 propriate to carry out this section, including regula-
 21 tions requiring recordkeeping and information re-
 22 porting.”

23 (b) DEDUCTION ALLOWED IN COMPUTING AD-

24 JUSTED GROSS INCOME.—Section 62(a) is amended by in-

25 serting after paragraph (16) the following new paragraph:

“Sec. 221. Higher education tuition and fees; interest on student loans.

(d) **EFFECTIVE DATES.**—The amendments made by this section shall apply to taxable years beginning after December 31, 1996.

11 (a) IN GENERAL.—Subsections (a) and (b) of section
12 117 (defining qualified scholarships) are amended to read
13 as follows:

19 “(b) QUALIFIED SCHOLARSHIP OR FELLOWSHIP.—
20 For purposes of this section—

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1 “(A) as a scholarship at an educational or-
 2 ganization described in section 170(b)(1)(A)(ii),
 3 or

4 “(B) as a fellowship grant.

5 Such term includes the value of any contributed
 6 services and accommodations included in such schol-
 7 arship or grant.

8 “(2) ADDITIONAL EXPENSES.—The term ‘quali-
 9 fied scholarship or fellowship’ includes any amount
 10 received to cover expenses for travel, research, cleri-
 11 cal help, or equipment which are incident to a schol-
 12 arship or fellowship grant described in paragraph
 13 (1), but only to the extent that the amount is so ex-
 14 pended by the recipient.”

15 (b) EXTENSION TO CERTAIN INDIVIDUALS WHO ARE
 16 NOT DEGREE CANDIDATES.—

17 (1) IN GENERAL.—Section 117 is amended by
 18 adding at the end the following new subsection:

19 “(e) INDIVIDUALS WHO ARE NOT DEGREE CAN-
 20 DIDATES.—

21 “(1) IN GENERAL.—Subsection (a) shall apply
 22 to an individual who is not a candidate for a degree
 23 at an educational organization described in section
 24 170(b)(1)(A)(ii) if the grantor of the scholarship
 25 is—

1 “(A) an organization described in section
2 501(c)(3) which is exempt from tax under sec-
3 tion 501(a),

4 “(B) a foreign government,

5 “(C) an international organization, or a bi-
6 national or multinational educational and cul-
7 tural foundation or commission created or con-
8 tinued pursuant to the Mutual Educational and
9 Cultural Exchange Act of 1961, or

10 “(D) the United States or an instrumen-
11 tality or agency thereof or a State or possession
12 of the United States or any political subdivision
13 thereof.

14 “(2) LIMITATION.—The amounts described in
15 subsection (b)(1) which may be excluded under sub-
16 section (a) in the case of an individual described in
17 paragraph (1) shall not exceed the product of—

18 “(A) \$300, and

19 “(B) the number of months for which the
20 recipient received amounts under the scholar-
21 ship or fellowship grant during the taxable year,
22 except that not more than 36 months (whether
23 or not consecutive) may be taken into account
24 under this subsection with respect to any indi-
25 vidual for all taxable years.”

1 (2) CONFORMING AMENDMENT.—The second
 2 sentence of section 1441(b) is amended to read as
 3 follows: “The items of income referred to in sub-
 4 section (a) from which tax shall be deducted and
 5 withheld at the rate of 14 percent are amounts
 6 which are received by a nonresident alien individual
 7 who is temporarily present in the United States as
 8 a nonimmigrant under subparagraph (F), (J), (M),
 9 or (Q) of section 101(a)(15) of the Immigration and
 10 Nationality Act and which are incident to a qualified
 11 scholarship or fellowship to which section 117(a) ap-
 12 plies, but only to the extent such amounts are in-
 13 cludable in gross income.”

14 (c) REQUIREMENT OF FUTURE SERVICE AS A FED-
 15 ERAL EMPLOYEE.—Section 117(c) is amended—

16 (1) by striking “Subsections” and inserting:

17 “(1) IN GENERAL.—Subsections”, and

18 (2) by adding at the end the following new
 19 paragraph:

20 “(2) FEDERAL GRANTS FOR TUITION AND RE-
 21 LATED EXPENSES NOT INCLUDABLE MERELY BE-
 22 CAUSE THERE IS REQUIREMENT OF FUTURE SERV-
 23 ICE AS FEDERAL EMPLOYEE.—

24 “(A) IN GENERAL.—If—

1 “(i) an amount received by an individ-
 2 ual under a Federal program would be ex-
 3 cludable under subsection (a) as a scholar-
 4 ship or fellowship grant but for the fact
 5 that the individual is required to perform
 6 future service as a Federal employee, and

7 “(ii) the individual establishes that, in
 8 accordance with the terms of the grant,
 9 such amount was used for qualified tuition
 10 and related expenses,

11 gross income shall not include such amount.

12 “(B) QUALIFIED TUITION AND RELATED
 13 EXPENSES DEFINED.—For purposes of this
 14 paragraph—

15 “(i) IN GENERAL.—The term ‘quali-
 16 fied tuition and related expenses’ means—

17 “(I) tuition and fees required for
 18 the enrollment or attendance of a stu-
 19 dent at an institution of higher edu-
 20 cation, and

21 “(II) fees, books, supplies, and
 22 equipment required for courses of in-
 23 struction at an institution of higher
 24 education.

1 “(ii) INSTITUTION OF HIGHER EDU-
 2 CATION.—The term ‘institution of higher
 3 education’ means an educational institu-
 4 tion in any State which—

5 “(I) admits as regular students
 6 only individuals having a certificate of
 7 graduation from a high school, or the
 8 recognized equivalent of such a certifi-
 9 cate,

10 “(II) is legally authorized within
 11 such State to provide a program of
 12 education beyond high school,

13 “(III) provides an educational
 14 program for which it awards a bach-
 15 elor’s or higher degree, provides a
 16 program which is acceptable for full
 17 credit toward such a degree, or offers
 18 a program of training to prepare stu-
 19 dents for gainful employment in a rec-
 20 ognized health profession, and

21 “(IV) is a public or other non-
 22 profit institution.

23 “(C) SERVICE AS FEDERAL EMPLOYEE.—

24 For purposes of this paragraph, service in a

1 health manpower shortage area shall be treated
2 as service as a Federal employee.”

3 (d) CONFORMING AMENDMENTS.—

4 (1)(A) The heading for section 117 is amended
5 by adding “**OR FELLOWSHIPS**” after “**SCHOLAR-**
6 **SHIPS**”.

7 (B) The item relating to section 117 in the
8 table of sections for part III of subchapter B of
9 chapter 1 is amended by inserting “or fellowships”
10 after “scholarships”.

11 (2) Sections 74(a) and 135(d)(1)(A) are each
12 amended by inserting “or fellowships” after “schol-
13 arships”.

14 (3) Sections 4941(d)(2)(G)(ii) and 4945(g)(1)
15 are each amended by striking “which would be sub-
16 ject to the provisions of section 117(a) (as in effect
17 on the day before the date of the enactment of the
18 Tax Reform Act of 1986)” and inserting “which are
19 subject to the provisions of section 117(a)”.

20 (e) EFFECTIVE DATE.—The amendments made by
21 this section shall apply to taxable years beginning after
22 December 31, 1996.

1 **SEC. 103. EMPLOYER-PROVIDED EDUCATIONAL ASSIST-**
2 **ANCE PROGRAMS.**

3 (a) PERMANENT EXTENSION.—Section 127 (relating
4 to exclusion for educational assistance programs) is
5 amended by striking subsection (d) and by redesignating
6 subsection (e) as subsection (d).

7 (b) REPEAL OF LIMITATION ON GRADUATE EDU-
8 CATION.—The last sentence of section 127(c)(1) of such
9 Code is amended by striking “, and such term also does
10 not include any payment for, or the provision of any bene-
11 fits with respect to, any graduate level course of a kind
12 normally taken by an individual pursuing a program lead-
13 ing to a law, business, medical, or other advanced aca-
14 demic or professional degree”.

15 (c) EFFECTIVE DATES.—

16 (1) EXTENSION.—The amendments made by
17 subsection (a) shall apply to taxable years beginning
18 after December 31, 1996.

19 (2) GRADUATE EDUCATION.—The amendment
20 made by subsection (b) shall apply with respect to
21 expenses relating to courses beginning after June
22 30, 1996.

1 **Subtitle B—Encouraging Savings**
 2 **for Higher Education Costs**

3 **SEC. 111. DISTRIBUTIONS FROM CERTAIN PLANS MAY BE**
 4 **USED WITHOUT PENALTY TO PAY HIGHER**
 5 **EDUCATION EXPENSES.**

6 (a) IN GENERAL.—Paragraph (2) of section 72(t)
 7 (relating to exceptions to 10-percent additional tax on
 8 early distributions from qualified retirement plans) is
 9 amended by adding at the end the following new subpara-
 10 graph:

11 “(E) DISTRIBUTIONS FROM CERTAIN
 12 PLANS FOR EDUCATIONAL EXPENSES.—Dis-
 13 tributions to an individual from an individual
 14 retirement plan, or from amounts attributable
 15 to employer contributions made pursuant to
 16 elective deferrals described in subparagraph (A)
 17 or (C) of section 402(g)(3) or section
 18 501(c)(18)(D)(iii), to the extent such distribu-
 19 tions do not exceed the qualified higher edu-
 20 cation expenses (as defined in paragraph (6)) of
 21 the taxpayer for the taxable year.”

22 (b) DEFINITION.—Section 72(t) is amended by add-
 23 ing at the end the following new paragraph:

24 “(7) QUALIFIED HIGHER EDUCATION EX-
 25 PENSES.—For purposes of paragraph (2)(E)—

“(A) IN GENERAL.—The term ‘qualified higher education expenses’ means tuition, fees, books, supplies, and equipment required for the enrollment or attendance of—

“(i) the taxpayer,

“(ii) the taxpayer’s spouse, or

“(iii) any child (as defined in section 151(c)(3)), grandchild, or ancestor of the taxpayer or the taxpayer’s spouse, at an eligible educational institution (as defined in section 135(c)(3)).

“(B) COORDINATION WITH OTHER EXCLUSIONS.—The amount of qualified higher education expenses for any taxable year shall be reduced by the sum of—

“(i) any amount excludable from gross income under section 135, plus

“(ii) the excess of—

“(I) amounts excludable under section 222(d)(2) for the taxable year, reduced (but not below zero) by—

“(II) reasonable expenses paid or incurred during the taxable year for meals and lodging of the taxpayer, spouse, or dependent while an eligible

1 student at an institution of higher
2 education.

3 For purposes of this subparagraph, the terms
4 ‘eligible student’ and ‘institution of higher edu-
5 cation’ have the meanings given such terms by
6 section 221.”

7 (c) CONFORMING AMENDMENTS.—

8 (1) Section 401(k)(2)(B)(i) is amended by
9 striking “or” at the end of subclause (III), by strik-
10 ing “and” at the end of subclause (IV) and inserting
11 “or”, and by inserting after subclause (IV) the fol-
12 lowing new subclause:

13 “(V) the date on which distribu-
14 tions for qualified higher education
15 expenses (as defined in section
16 72(t)(7)) are made, and”.

17 (2) Section 403(b)(11) is amended by striking
18 “or” at the end of subparagraph (A), by striking the
19 period at the end of subparagraph (B) and inserting
20 “, or”, and by inserting after subparagraph (B) the
21 following new subparagraph:

22 “(C) for the payment of qualified higher
23 education expenses (as defined in section
24 72(t)(7)).”

1 (d) EFFECTIVE DATE.—The amendments made by
 2 this section shall apply to payments and distributions after
 3 the date of the enactment of this Act.

4 **SEC. 112. EDUCATION SAVINGS ACCOUNTS.**

5 (a) IN GENERAL.—Part VII of subchapter B of chap-
 6 ter 1 (relating to additional itemized deductions for indi-
 7 viduals), as amended by section 101, is amended by redes-
 8 ignating section 222 as section 223 and by inserting after
 9 section 221 the following new section:

10 **“SEC. 222. EDUCATION SAVINGS ACCOUNTS.**

11 “(a) DEDUCTION ALLOWED.—In the case of an indi-
 12 vidual, there shall be allowed as a deduction the sum of—

13 “(1) amounts paid in cash, and

14 “(2) the fair market value of stocks, bonds, or
 15 other securities which are readily tradeable on an es-
 16 tablished securities market and which are trans-
 17 ferred,

18 during the calendar year which ends with or within the
 19 taxable year by such individual to an education savings
 20 account established for the purpose of accumulating funds
 21 to pay the educational expenses of an eligible individual.

22 “(b) LIMITATIONS.—

23 “(1) MAXIMUM DEDUCTION PER ACCOUNT.—

24 The amount allowable as a deduction under sub-
 25 section (a) to an individual for amounts paid or

transferred to an education savings account for any calendar year shall not exceed \$2,000.

“(2) LIMITATION BASED ON MODIFIED ADJUSTED GROSS INCOME.—

“(A) IN GENERAL.—If the modified adjusted gross income of the taxpayer for the taxable year exceeds \$70,000 (\$100,000 in the case of a joint return), the amount which would (but for this paragraph) be taken into account under subsection (a) shall be reduced (but not below zero) by the amount which bears the same ratio to the amount which would be taken into account as such excess bears to \$20,000.

“(B) MODIFIED ADJUSTED GROSS INCOME.—The term ‘modified adjusted gross income’ means the adjusted gross income of the taxpayer for the taxable year determined—

“(i) without regard to this section and sections 221, 911, 931, and 933, and

“(ii) after the application of sections 86, 135, 219, and 469.

“(C) NONDEDUCTIBLE CONTRIBUTIONS.—

“For nondeductible contributions to education savings accounts, see subsection (k).

“(3) LIMITATIONS ON ACCOUNTS.—

1 “(A) ACCOUNT MAY NOT BE ESTABLISHED
2 FOR BENEFIT OF MORE THAN 1 INDIVIDUAL.—

3 An education savings account may not be estab-
4 lished for the benefit of more than 1 individual.

5 “(B) ELIGIBLE INDIVIDUAL TREATED AS
6 ELIGIBLE INDIVIDUAL ONLY WITH RESPECT TO
7 1 ACCOUNT.—If, at any time during a calendar
8 year, 2 or more education savings accounts are
9 maintained for the benefit of an eligible individ-
10 ual, such individual shall be treated as an eligi-
11 ble individual for the calendar year only with
12 respect to the first of such accounts.

13 “(4) NO DEDUCTION AFTER BENEFICIARY AT-
14 TAINS AGE 19.—No deduction shall be allowed for
15 any contribution to an education savings account es-
16 tablished for the benefit of an eligible individual who
17 has attained age 19 before the close of the calendar
18 year in which such contribution is made.

19 “(5) ADJUSTMENT OF DOLLAR AMOUNT LIM-
20 TATIONS FOR INFLATION.—

21 “(A) IN GENERAL.—In the case of any cal-
22 endar year after 1997, the \$70,000 and
23 \$100,000 amounts under paragraph (2), shall
24 each be increased by an amount equal to—

25 “(i) such dollar amount, multiplied by

1 “(ii) the cost-of-living adjustment de-
 2 termined under section 1(f)(3) for such
 3 calendar year by substituting ‘calendar
 4 year 1996’ for ‘calendar year 1992’ in sub-
 5 paragraph (B) thereof.

6 “(B) ROUNDING.—The rounding rules of
 7 section 221(b)(3)(C) shall apply to any increase
 8 under subparagraph (A).

9 “(6) ROLLOVER CONTRIBUTIONS.—Paragraph
 10 (1) shall not apply to any rollover contribution de-
 11 scribed in subsection (c)(2)(F)(i)(II) or (d)(3)(B).

12 “(c) DEFINITIONS AND SPECIAL RULES.—For pur-
 13 poses of this section—

14 “(1) ELIGIBLE INDIVIDUAL.—The term ‘eligible
 15 individual’ means an individual who is—

16 “(A) a child (within the meaning of section
 17 153(e)(3)) of the taxpayer or of a brother, sis-
 18 ter, stepbrother, or stepsister of the taxpayer,

19 “(B) an individual with respect to whom
 20 the taxpayer has been appointed guardian by a
 21 court of competent jurisdiction, or

22 “(C) a descendant of a child of the tax-
 23 payer.

1 “(2) EDUCATION SAVINGS ACCOUNT.—The
2 term ‘education savings account’ means a trust cre-
3 ated or organized in the United States exclusively
4 for the purpose of paying the educational expenses
5 of an eligible individual, but only if the written gov-
6 erning instrument creating the trust meets the fol-
7 lowing requirements:

8 “(A) No contribution will be accepted un-
9 less it is in cash, stocks, bonds, or other securi-
10 ties which are readily tradeable on an estab-
11 lished securities market, and, except in the case
12 of contributions from another education savings
13 account, contributions will not be accepted for
14 the taxable year in excess of \$2,000.

15 “(B) The trustee is a bank (as defined in
16 section 408(n)) or another person who dem-
17 onstrates to the satisfaction of the Secretary
18 that the manner in which the person will ad-
19 minister the trust will be consistent with the re-
20 quirements of this section.

21 “(C) No part of the trust assets will be in-
22 vested in life insurance contracts (other than
23 contracts the beneficiary of which is the trust
24 and the face amount of which does not exceed
25 the amount by which the maximum amount

1 which can be contributed to the account exceeds
2 the sum of the amounts contributed to the ac-
3 count for all taxable years).

4 “(D) The assets of the account may be in-
5 vested in accordance with the direction of the
6 individual contributing to the account, but, if
7 more than one individual has made contribu-
8 tions to the account, the consent of all such in-
9 dividuals shall be required for any such direc-
10 tion.

11 “(E) The assets of the trust shall not be
12 commingled with other property except in a
13 common trust fund or common investment
14 fund.

15 “(F)(i) Any balance in the account on the
16 day after the date on which the individual for
17 whose benefit the trust is established attains
18 age 30 (or, if earlier, the date on which such
19 individual dies) shall be distributed within 30
20 days of such date—

21 “(I) in accordance with paragraph (5)
22 to each of the individuals who have con-
23 tributed to the trust, or

1 “(II) as directed by such individuals,
 2 to another education savings account es-
 3 tablished for the benefit of an eligible indi-
 4 vidual who has not attained age 30 or to
 5 an eligible educational institution.

6 “(ii) If an individual is at least a half-time
 7 student at an eligible educational institution at
 8 the time the individual attains age 30, clause (i)
 9 shall not apply until the individual ceases to be
 10 such a student.

11 “(3) TIME WHEN CONTRIBUTIONS DEEMED
 12 MADE.—A taxpayer shall be deemed to have made a
 13 contribution on the last day of the preceding taxable
 14 year if the contribution is made on account of such
 15 taxable year and is made not later than the time
 16 prescribed by law for filing the return for such tax-
 17 able year (including extensions thereof).

18 “(4) STOCK, ETC., TO BE VALUED AS OF
 19 TRANSFER DATE.—The fair market value of stocks,
 20 bonds, and other securities shall be determined as of
 21 the date on which they are transferred to the ac-
 22 count. If the date of transfer falls on a Saturday,
 23 Sunday, or public legal holiday, then the fair market
 24 value shall be determined by reference to the last

preceding day on which they could have been traded
on an established securities market.

“(5) DISTRIBUTION OF BALANCE IN ACCOUNT
TO CONTRIBUTORS.—The Secretary shall prescribe
regulations describing the manner in which any bal-
ance in the education savings account shall be dis-
tributed under paragraph (2)(F)(i)(I) among the
contributors to the account. Any division of the bal-
ance in the account shall reflect—

“(A) the amount of net income of the ac-
count which is attributable to the contributions
of each such individual, and

“(B) a proper allocation of any amounts
previously distributed from the account for edu-
cational expenses among the contributions
which were made before any such distribution
(including the net income of the account which
was attributable to such contributions and
earned before any such distribution).

“(6) EDUCATIONAL EXPENSES.—The term
‘educational expenses’ means—

“(A) tuition and fees required for the en-
rollment or attendance of a student at an eligi-
ble educational institution,

1 “(B) fees, books, supplies, and equipment
2 required for courses of instruction at an eligible
3 educational institution, and

4 “(C) a reasonable allowance for meals and
5 lodging while attending an eligible educational
6 institution.

7 “(7) ELIGIBLE EDUCATIONAL INSTITUTION.—
8 The term ‘eligible educational institution’ means an
9 institution of higher education described in section
10 481(a) of the Higher Education Act of 1965.

11 “(d) TAX TREATMENT OF DISTRIBUTIONS.—

12 “(1) IN GENERAL.—Except as otherwise pro-
13 vided in this subsection, any amount paid or distrib-
14 uted out of an education savings account shall be in-
15 cluded in gross income of the payee or distributee
16 for the taxable year in which the payment or dis-
17 tribution is received to the extent such amount is
18 not the return of a contribution for which no deduc-
19 tion was allowed under subsection (a) (as deter-
20 mined in the same manner as provided under section
21 72).

22 “(2) DISTRIBUTION USED TO PAY EDU-
23 CATIONAL EXPENSES.—Paragraph (1) shall not
24 apply to any payment or distribution out of an edu-
25 cation savings account to the extent such payment

1 or distribution is used exclusively to pay the edu-
 2 cational expenses incurred by the individual for
 3 whose benefit the account is established.

4 “(3) DISTRIBUTIONS TO ANOTHER ACCOUNT OR
 5 TO ELIGIBLE EDUCATIONAL INSTITUTION.—

6 “(A) IN GENERAL.—Paragraph (1) shall
 7 not apply to any distribution under subsection
 8 (c)(2)(F)(i)(II).

9 “(B) ROLLOVER CONTRIBUTIONS.—Para-
 10 graph (1) shall not apply to any distribution—

11 “(i) from an education savings ac-
 12 count of the individual for whose benefit
 13 the account is established which, within 60
 14 days of such distribution, is paid to an-
 15 other such account of such individual, or

16 “(ii) which is not described in sub-
 17 paragraph (A) and which, as directed by
 18 individuals who have contributed to the ac-
 19 count, is paid to another education savings
 20 account established for the benefit of an el-
 21 igible individual who is a member of the
 22 family (within the meaning of section
 23 2032A(e)(2)) of the account holder.

24 “(4) EXCESS CONTRIBUTIONS RETURNED BE-
 25 FORE DUE DATE OF RETURN.—Paragraph (1) does

1 not apply to the distribution of any contribution paid
 2 during a taxable year to an education savings ac-
 3 count to the extent that such contribution exceeds
 4 the amount allowable as a deduction under sub-
 5 section (a) if—

6 “(A) such distribution is received on or be-
 7 fore the day prescribed by law (including exten-
 8 sions of time) for filing such individual’s return
 9 for such taxable year,

10 “(B) no deduction is allowed under sub-
 11 section (a) with respect to such excess contribu-
 12 tion, and

13 “(C) such distribution is accompanied by
 14 the amount of net income attributable to such
 15 excess contribution.

16 Any net income described in subparagraph (C) shall
 17 be included in the gross income of the individual for
 18 the taxable year in which such excess contribution
 19 was made.

20 “(e) TAX TREATMENT OF ACCOUNTS.—

21 “(1) EXEMPTION FROM TAX.—An education
 22 savings account is exempt from taxation under this
 23 subtitle unless such account has ceased to be an
 24 education savings account by reason of paragraph
 25 (2) or (3). Notwithstanding the preceding sentence,

1 any such account is subject to the taxes imposed by
 2 section 511 (relating to imposition of tax on unre-
 3 lated business income of charitable, etc. organiza-
 4 tions).

5 “(2) LOSS OF EXEMPTION OF ACCOUNT WHERE
 6 INDIVIDUAL ENGAGES IN PROHIBITED TRANS-
 7 ACTION.—

8 “(A) IN GENERAL.—If the individual for
 9 whose benefit an education savings account is
 10 established or any individual who contributes to
 11 such account engages in any transaction prohib-
 12 ited by section 4975 with respect to the ac-
 13 count, the account shall cease to be an edu-
 14 cation savings account as of the first day of the
 15 taxable year (of the individual so engaging in
 16 such transaction) during which such transaction
 17 occurs.

18 “(B) ACCOUNT TREATED AS DISTRIBUTING
 19 ALL ITS ASSETS.—In any case in which any ac-
 20 count ceases to be an education savings account
 21 by reason of subparagraph (A) as of the first
 22 day of any taxable year, paragraph (1) of sub-
 23 section (d) shall apply as if there was a dis-
 24 tribution on such first day in an amount equal

1 to the fair market value (on such first day) of
 2 all assets in the account (on such first day).

3 “(3) EFFECT OF PLEDGING ACCOUNT AS SECU-
 4 RITY.—If, during any taxable year, the individual for
 5 whose benefit an education savings account is estab-
 6 lished, or any individual who contributes to such ac-
 7 count, uses the account or any portion thereof as se-
 8 curity for a loan, the portion so used shall be treated
 9 as distributed to the individual so using such por-
 10 tion.

11 “(f) ADDITIONAL TAX ON CERTAIN AMOUNTS IN-
 12 CLUDED IN GROSS INCOME.—

13 “(1) DISTRIBUTION NOT USED FOR EDU-
 14 CATIONAL EXPENSES.—In the case of any payment
 15 or distribution to which subsection (d)(1) applies,
 16 the tax liability of each payee or distributee under
 17 this chapter for the taxable year in which the pay-
 18 ment or distribution is received shall be increased by
 19 an amount equal to 10 percent of the amount of the
 20 distribution which is includible in the gross income
 21 of such payee or distributee for such taxable year.

22 “(2) DISQUALIFICATION CASES.—If an amount
 23 is includible in the gross income of an individual for
 24 a taxable year because such amount is required to
 25 be treated as a distribution under paragraph (2) or

(3) of subsection (e), such individual's tax liability under this chapter for such taxable year shall be increased by an amount equal to 10 percent of such amount required to be treated as a distribution and included in the individual's gross income.

“(3) DISABILITY OR DEATH CASES AND UNEMPLOYMENT.—Paragraphs (1) and (2) shall not apply if the payment or distribution—

“(A) is made after the individual for whose benefit the education savings account becomes disabled within the meaning of section 72(m)(7) or dies, or

“(B) is made to an individual who is a contributor after separation from employment if—

“(i) such individual has received unemployment compensation for 12 consecutive weeks under any Federal or State unemployment compensation law by reason of such separation, and

“(ii) such distributions are made during any taxable year during which such unemployment compensation is paid or the succeeding taxable year.

1 To the extent provided in regulations, a self-em-
2 ployed individual shall be treated as meeting the re-
3 quirements of subparagraph (B)(i) if, under Federal
4 or State law, the individual would have received un-
5 employment compensation but for the fact the indi-
6 vidual was self-employed.

7 “(g) COMMUNITY PROPERTY LAWS.—This section
8 shall be applied without regard to any community property
9 laws.

10 “(h) CUSTODIAL ACCOUNTS.—For purposes of this
11 section, a custodial account shall be treated as a trust if
12 the assets of such account are held by a bank (as defined
13 in section 408(n)) or another person who demonstrates,
14 to the satisfaction of the Secretary, that the manner in
15 which he will administer the account will be consistent
16 with the requirements of this section, and if the custodial
17 account would, except for the fact that it is not a trust,
18 constitute an education savings account described in sub-
19 section (c)(2). For purposes of this title, in the case of
20 a custodial account treated as a trust by reason of the
21 preceding sentence, the custodian of such account shall be
22 treated as the trustee thereof.

23 “(i) REPORTS.—The trustee of an education savings
24 account shall make such reports regarding such account
25 to the Secretary and to the individual for whose benefit

1 the account is maintained with respect to contributions,
 2 distributions, and such other matters as the Secretary
 3 may require under regulations. The reports required by
 4 this subsection shall be filed at such time and in such
 5 manner and furnished to such individuals at such time and
 6 in such manner as may be required by those regulations.

7 “(j) COORDINATION WITH FEDERAL MEANS-TESTED
 8 PROGRAMS.—For purposes of any Federal means-tested
 9 program, the balance in any education savings account
 10 (and any income from such account) shall not be treated
 11 as an asset (or income) of the individual for whom the
 12 account is established or any parent of such individual.

13 “(k) DEFINITIONS AND RULES RELATING TO NON-
 14 DEDUCTIBLE CONTRIBUTIONS TO EDUCATION SAVINGS
 15 ACCOUNTS.—

16 “(1) IN GENERAL.—Subject to the provisions of
 17 this subsection, designated nondeductible contribu-
 18 tions may be made on behalf of an individual to an
 19 education savings account.

20 “(2) LIMITS ON AMOUNTS WHICH MAY BE CON-
 21 TRIBUTED.—

22 “(A) IN GENERAL.—The amount of the
 23 designated nondeductible contributions made on
 24 behalf of any individual for any taxable year

1 shall not exceed the nondeductible limit for
2 such taxable year.

3 “(B) NONDEDUCTIBLE LIMIT.—For pur-
4 poses of this paragraph—

5 “(i) IN GENERAL.—The term ‘non-
6 deductible limit’ means the excess of—

7 “(I) the amount allowable as a
8 deduction under this section (deter-
9 mined without regard to subsection
10 (b)(2)), over

11 “(II) the amount allowable as a
12 deduction under this section (deter-
13 mined with regard to subsection
14 (b)(2)).

15 “(ii) TAXPAYER MAY ELECT TO TREAT
16 DEDUCTIBLE CONTRIBUTIONS AS NON-
17 DEDUCTIBLE.—If a taxpayer elects not to
18 deduct an amount which (without regard
19 to this clause) is allowable as a deduction
20 under this section for any taxable year, the
21 nondeductible limit for such taxable year
22 shall be increased by such amount.

23 “(C) DESIGNATED NONDEDUCTIBLE CON-
24 TRIBUTIONS.—

1 “(i) IN GENERAL.—For purposes of
 2 this paragraph, the term ‘designated non-
 3 deductible contribution’ means any con-
 4 tribution to an education savings account
 5 for the taxable year which is designated (in
 6 such manner as the Secretary may pre-
 7 scribe) as a contribution for which a de-
 8 duction is not allowable under this section.

9 “(ii) DESIGNATION.—Any designation
 10 under clause (i) shall be made on the re-
 11 turn of tax imposed by chapter 1 for the
 12 taxable year.

13 “(3) TIME WHEN CONTRIBUTIONS MADE.—In
 14 determining for which taxable year a designated
 15 nondeductible contribution is made, the rule of sub-
 16 section (c)(3) shall apply.

17 “(4) INDIVIDUAL REQUIRED TO REPORT
 18 AMOUNT OF DESIGNATED NONDEDUCTIBLE CON-
 19 TRIBUTIONS.—

20 “(A) IN GENERAL.—Any individual who—

21 “(i) makes a designated nondeductible
 22 contribution to any education savings ac-
 23 count for any taxable year, or

1 “(ii) receives any amount from any
 2 education savings account for any taxable
 3 year,

4 shall include on his return of the tax imposed
 5 by chapter 1 for such taxable year and any suc-
 6 ceeding taxable year (or on such other form as
 7 the Secretary may prescribe for any such tax-
 8 able year) information described in subpara-
 9 graph (B).

10 “(B) INFORMATION REQUIRED TO BE SUP-
 11 PLIED.—The following information is described
 12 in this subparagraph:

13 “(i) The amount of designated non-
 14 deductible contributions for the taxable
 15 year.

16 “(ii) The amount of distributions from
 17 education savings accounts for the taxable
 18 year.

19 “(iii) The excess (if any) of—

20 “(I) the aggregate amount of
 21 designated nondeductible contribu-
 22 tions for all preceding taxable years,
 23 over

24 “(II) the aggregate amount of
 25 distributions from education savings

1 accounts which was excludable from
 2 gross income for such taxable years.

3 “(iv) The aggregate balance of the
 4 education savings account of the individual
 5 as of the close of the calendar year in
 6 which the taxable year begins.

7 “(v) Such other information as the
 8 Secretary may prescribe.”

9 (b) DEDUCTION ALLOWED IN ARRIVING AT AD-
 10 JUSTED GROSS INCOME.—Paragraph (7) of section 62(a)
 11 (relating to retirement savings) is amended—

12 (1) by inserting “OR EDUCATION” after “RE-
 13 TIREMENT” in the heading of such paragraph, and

14 (2) by inserting before the period at the end the
 15 following: “and the deduction allowed by section 222
 16 (relating to education savings accounts)”.

17 (c) TAX ON EXCESS CONTRIBUTIONS.—Section 4973
 18 (relating to tax on excess contributions to individual re-
 19 tirement accounts, certain section 403(b) contracts, and
 20 certain individual retirement annuities) is amended—

21 (1) by inserting “**EDUCATION SAVINGS AC-**
 22 **COUNTS,**” after “**SAVINGS ACCOUNTS,**” in the
 23 heading of such section,

24 (2) by striking “or” at the end of paragraph
 25 (2) of subsection (a),

1 (3) by redesignating paragraph (3) of sub-
 2 section (a) as paragraph (4) and by inserting after
 3 paragraph (2) the following new paragraph:

4 “(3) an education savings account (within the
 5 meaning of section 222(c)(2)), or”, and

6 (4) by adding at the end the following new sub-
 7 section:

8 “(e) EXCESS CONTRIBUTIONS TO EDUCATION SAV-
 9 INGS ACCOUNTS.—For purposes of this section, in the
 10 case of an education savings account, the term ‘excess con-
 11 tributions’ means the amount by which the amount con-
 12 tributed for the taxable year to the account exceeds the
 13 amount allowable as a deduction under section 222 for
 14 such taxable year. For purposes of this subsection, any
 15 contribution which is distributed out of the education sav-
 16 ings account in a distribution to which section 222(d)(4)
 17 applies shall be treated as an amount not contributed.”

18 (d) CONTRIBUTION NOT SUBJECT TO GIFT TAX.—
 19 Section 2503 (relating to taxable gifts) is amended by
 20 adding at the end the following new subsection:

21 “(h) EDUCATION SAVINGS ACCOUNTS.—Any con-
 22 tribution (including any rollover contribution) made by an
 23 individual to an education savings account described in
 24 section 222(c)(2) which is allowable as a deduction under

1 section 222 shall not be treated as a transfer of property
 2 by gift for purposes of this chapter.”

3 (e) TAX ON PROHIBITED TRANSACTIONS.—Section
 4 4975 (relating to prohibited transactions) is amended—

5 (1) by adding at the end of subsection (c) the
 6 following new paragraph:

7 “(5) SPECIAL RULE FOR EDUCATION SAVINGS
 8 ACCOUNTS.—An individual for whose benefit an edu-
 9 cation savings account is established and any con-
 10 tributor to such account shall be exempt from the
 11 tax imposed by this section with respect to any
 12 transaction concerning such account (which would
 13 otherwise be taxable under this section) if, with re-
 14 spect to such transaction, the account ceases to be
 15 an education savings account by reason of the appli-
 16 cation of section 222(e)(2)(A) to such account.”;
 17 and

18 (2) in subsection (e)(1), by striking “or” at the
 19 end of subparagraph (D), by redesignating subpara-
 20 graph (E) as subparagraph (F), and by inserting
 21 after subparagraph (D) the following new subpara-
 22 graph:

23 “(E) an education savings account de-
 24 scribed in section 222(c)(2), or”.

1 (f) FAILURE TO PROVIDE REPORTS ON EDUCATION
 2 SAVINGS ACCOUNTS.—Section 6693 (relating to failure to
 3 provide reports on individual retirement accounts or annu-
 4 ities) is amended—

5 (1) by inserting “**OR ON EDUCATION SAV-**
 6 **INGS ACCOUNTS**” after “**ANNUITIES**” in the
 7 heading of such section, and

8 (2) in subsection (a)(2), by striking “and” at
 9 the end of subparagraph (A), by striking the period
 10 at the end of subparagraph (B) and inserting “,
 11 and”, and by adding at the end the following new
 12 subparagraph:

13 “(C) section 222(i) (relating to education
 14 savings accounts).”

15 (g) SPECIAL RULE FOR DETERMINING AMOUNTS OF
 16 SUPPORT FOR DEPENDENT.—Subsection (b) of section
 17 152 (relating to definition of dependent) is amended by
 18 adding at the end the following new paragraph:

19 “(6) A distribution from an education savings
 20 account described in section 222(c)(2) to the individ-
 21 ual for whose benefit such account has been estab-
 22 lished shall not be taken into account in determining
 23 support for purposes of this section to the extent
 24 such distribution is excluded from gross income of
 25 such individual under section 222(d)(2).”

1 (h) CLERICAL AMENDMENTS.—

2 (1) The table of sections for part VII of sub-
 3 chapter B of chapter 1 is amended by striking the
 4 item relating to section 222 and inserting the follow-
 5 ing new items:

“Sec. 222. Education savings accounts.
 “Sec. 223. Cross reference.”

6 (2) The table of sections for chapter 43 is
 7 amended by striking the item relating to section
 8 4973 and inserting the following new item:

“Sec. 4973. Tax on excess contributions to individual retirement
 accounts, medical savings accounts, education sav-
 ings accounts, certain 403(b) contracts, and certain
 individual retirement annuities.”

9 (3) The table of sections for subchapter B of
 10 chapter 68 is amended by striking the item relating
 11 to section 6693 and inserting the following new
 12 item:

“Sec. 6693. Failure to provide reports on individual retirement
 accounts or annuities or on education savings ac-
 counts.”

13 (i) EFFECTIVE DATE.—The amendments made by
 14 this section shall apply to taxable years beginning after
 15 December 31, 1996.

16 **SEC. 113. INCREASE IN INCOME LIMITS FOR SAVINGS BOND**
 17 **EXCLUSION.**

18 (a) IN GENERAL.—Paragraph (2) of section 135(b)
 19 is amended to read as follows:

1 “(2) LIMITATION BASED ON MODIFIED AD-
2 JUSTED GROSS INCOME.—

3 “(A) IN GENERAL.—If the modified ad-
4 justed gross income of the taxpayer for the tax-
5 able year exceeds \$70,000 (\$100,000 in the
6 case of a joint return), the amount which would
7 (but for this paragraph) be excludable from
8 gross income under subsection (a) shall be re-
9 duced (but not below zero) by the amount
10 which bears the same ratio to the amount which
11 would be so excludable as such excess bears to
12 \$20,000.

13 “(B) INFLATION ADJUSTMENT.—In the
14 case of any taxable year beginning in a calendar
15 year after 1997, the \$70,000 and \$100,000
16 amounts contained in subparagraph (A) shall
17 be increased by an amount equal to—

18 “(i) such dollar amount, multiplied by

19 “(ii) the cost-of-living adjustment
20 under section 1(f)(3) for the calendar year
21 in which the taxable year begins, deter-
22 mined by substituting ‘1996’ for ‘1992’ in
23 subparagraph (B) thereof.

1 “(C) ROUNDING.—If any amount as ad-
 2 justed under subparagraph (B) is not a mul-
 3 tiple of \$50, such amount shall be rounded to
 4 the nearest multiple of \$50 (or if such amount
 5 is a multiple of \$25, such amount shall be
 6 rounded to the next highest multiple of \$50).”

7 (b) EFFECTIVE DATE.—The amendments made by
 8 this section shall apply to taxable years beginning after
 9 December 31, 1996.

10 **TITLE II—SCHOLARSHIPS FOR** 11 **ACADEMIC ACHIEVEMENT**

12 **SEC. 201. ACADEMIC ACHIEVEMENT SCHOLARSHIPS.**

13 (a) SCHOLARSHIPS.—The Secretary of Education is
 14 authorized to award scholarships for academic year 1998–
 15 1999 and succeeding academic years to each student in
 16 a State who graduated in the top 5 percent of such stu-
 17 dent’s graduating class from secondary school in academic
 18 year 1997–1998 or a succeeding academic year.

19 (b) AMOUNT.—Each scholarship awarded under this
 20 section shall be in the amount of \$1,000.

21 (c) NUMBER AND USE.—Each student described in
 22 subsection (a) may receive a maximum of 2 scholarships
 23 under this section for use at any institution of higher edu-
 24 cation during any 4 academic years.

1 (d) CONTINUING ELIGIBILITY.—In order to be eligi-
 2 ble to receive a second scholarship under this section, a
 3 student shall maintain a 3.0 grade point average on a 4.0
 4 grade point scale during such student’s first year of study
 5 at an institution of higher education.

6 (e) LIMITATION BASED ON MODIFIED ADJUSTED
 7 GROSS INCOME.—

8 (1) IN GENERAL.—The Secretary of Education
 9 shall not award a scholarship to a student under this
 10 section if the modified adjusted gross income of the
 11 parents of such student in the case of a dependent
 12 student, or the student in the case of an independ-
 13 ent student, for the most recent taxable year ending
 14 before the academic year for which the scholarship
 15 is awarded exceeds \$70,000 (\$100,000 in the case
 16 of a joint return).

17 (2) MODIFIED ADJUSTED GROSS INCOME.—The
 18 term “modified adjusted gross income” means the
 19 adjusted gross income of the taxpayer for the tax-
 20 able year determined without regard to sections 911,
 21 931, and 933 of the Internal Revenue Code of 1986.

22 (3) ADJUSTMENT OF DOLLAR AMOUNT LIMITA-
 23 TIONS FOR INFLATION.—

24 (A) IN GENERAL.—In the case of any cal-
 25 endar year after 1997, the \$70,000 and

1 \$100,000 amounts under paragraph (1), shall
 2 each be increased by an amount equal to—

3 (i) such dollar amount, multiplied by

4 (ii) the cost-of-living adjustment de-
 5 termined under section 1(f)(3) of the In-
 6 ternal Revenue Code of 1986 for such cal-
 7 endar year by substituting “calendar year
 8 1996” for “calendar year 1992” in sub-
 9 paragraph (B) of such section.

10 (B) ROUNDING.—The rounding rules of
 11 section 220(b)(3)(C) of the Internal Revenue
 12 Code of 1986 shall apply to any increase under
 13 subparagraph (A).

14 (f) REGULATIONS.—The Secretary of Education shall
 15 promulgate regulations regarding the notification concern-
 16 ing, payment of, and continuing eligibility for, scholarships
 17 under this section.

18 **SEC. 202. DEFINITIONS.**

19 For the purpose of this title—

20 (1) the term “institution of higher education”
 21 has the meaning given such term in section 1201 of
 22 the Higher Education Act of 1965 (20 U.S.C.
 23 1141);

1 (2) the term “secondary school” has the mean-
 2 ing given such term in section 14101 of the Elemen-
 3 tary and Secondary Education Act of 1965 (20
 4 U.S.C. 8801); and

5 (3) the term “State” means each of the several
 6 States of the United States and the District of Co-
 7 lumbia.

8 **SEC. 203. AUTHORIZATION OF APPROPRIATIONS.**

9 There are authorized to be appropriated
 10 \$130,000,000 for fiscal year 1998 and \$260,000,000 for
 11 each of the 4 succeeding fiscal years.

12 **TITLE III—DEFICIT NEUTRALITY**

13 **SEC. 301. SENSE OF THE SENATE.**

14 It is the sense of the Senate that—

15 (1) this Act will not increase the budget deficit
 16 of the United States; and

17 (2) the costs of carrying out this Act should be
 18 paid by closing corporate tax loopholes.

○